

# [Reflection essay on financial statements](https://assignbuster.com/reflection-essay-on-financial-statements/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

For a business owner, their main goal is to make a profit, and become successful so they can have a long future. In order to do that, he or she will have assets that will outweigh their liabilities and expenses, to gain a profit in the company. In a company there are four financial statements (Balance sheet, Income statement, Retained earnings statement, and Statement of cash flow) that he or she must have so investors can see in different time periods how their company is doing. “ Preparing an income statement is one of the basic responsibilities of the accounting function. (Alvis, Hillstrom, 2006, para. 3) Thisfinancial statementlets his or her investors know how well he or she did on revenues after they had to pay out their expenses for the time period. This lets the investors know how his or her business is doing in the product or service in which their selling. Cash is the most important asset a company can have, because he or she can pay expenses without having to liquidate any other assets (ex. computers, office furniture, etc. ). It also lets them know how much expenses him or her generally have going out of the business.

In preparing a Retained Earnings Statement, him or her first need to take his or her retained earnings, which is themoneythat was earned off of the common stock, and him or her want to use to grow the business instead of paying the money out in dividends. He or she will add retained earnings to their net income, then subtract out any dividends that will be paid to stockholders. That will show him or her their total Retained Earnings. “ Some investors seek companies that pay high dividends. Other investors seek companies that instead of paying dividends reinvest earnings to increase the company’s growth.

Lenders monitor their corporate customers’ dividend payments because any money paid in dividends reduces a company’s ability to repay its debts. ” (Kimmel, Weygandt, & Kieso, 2003, p. 13). The Balance Sheet describes how his or her business is doing with its assets and liabilities and stockholders’ equity. It is the basic accounting function. He or she must list out all of the assets, which could include: cash, accounts receivable, prepaid expenses (ex. Insurance payments), equipment, and buildings. Assets are on one side of the equation.

The other side of the equation should be his or her liabilities and equity. Liabilities are different expenses that are paid for the company such as: Accounts payable (the items you purchased on credit), taxes, and accrued liabilities. Stockholders equity is common stock (new money from stockholders) added in with the retained earnings (money that he or she have kept to grow their business). Liabilities and equity should equal the same amount as assets. Statement of Cash Flows is broken into several sections. The first section will have cash that the business has received for operating activities.

The product or services that have sold would be in this category. Also, if he or she had expenses to make the product (wrapping paper, tape, and mixing solution) this would be subtracted from the cash that was had gained from operating activities. The next section would the equipment or supplies purchased for investing in the company. The next section will be the cash that he or she has generated by people financing their company. This would include, stockholders buying new stock, and a bank lending the company money.

He or she would then take the cash that has been received from operating activities and the financing money and that would be how much cash the company has at that particular time period. To see how a company is doing financial reports can be run on a monthly basis, and use the technique comparative reporting. Management could compare current months to prior months to see if the company is making a profit or losing money throughout the months. Businesses use these records to see if it has the financial means to expand their business more. Would they be able to hire more employees, purchase new locations?

Investors also use this information to see how the company is progressing, or if it the profits aren’t as big as they use to be. This could be a sign for trouble down the road.

## Work cited

1. Alvis, J. M. & Hillstrom, L. (2006).
2. Income Statements. In M. M. Helms (Ed. )Encyclopedia of Management, (5th ed. , pp. 367-371) Detroit: Gale
3. Retrieved November 6, 2010, from Gale Virtual Reference Library via Gale: http://go. galegroup. com/ps/start. do? p= GVRL&u= Apollo Kimmel, P. , Weygandt, J. , & Kieso, D. (2003).
4. Essentials of accounting: Tools for business decision making (2nd ed. ). Hoboken, NJ: Wiley.